



March 27, 2015

ENGROSSED

HOUSE BILL No. 1264

DIGEST OF HB 1264 (Updated March 25, 2015 4:26 pm - DI 87)

Citations Affected: IC 5-11; IC 6-1.1.

Synopsis: Political subdivision internal controls. Beginning July 1, 2016, requires the following: (1) The legislative body of a political subdivision to ensure appropriate training of personnel concerning the internal control system. (2) The fiscal officer of a political subdivision to annually certify that certain internal controls and procedures of the local government are in place and personnel have received the required training. (3) The state board of accounts (board) to issue a comment in its examination report if a political subdivision has not adopted the internal controls or personnel have not received the training. (4) The board to report uncorrected the violations to the department of local government finance (DLGF). (5) The DLGF not to approve the budget or supplemental appropriations of a political subdivision that fails to adopt internal controls or procedures or satisfy the personnel training requirements. (6) Certain reporting and followup related to a report of misappropriation of political subdivision funds. (7) Board action for material variances, losses, shortages, or thefts. Requires the development or designation of personnel training materials by the state board of accounts not later than November 1, 2015. Effective July 1, 2016, provides for restitution related to attorney general proceedings. Requires internal audits, internal control reviews, and reporting by certain state agencies.

Effective: July 1, 2015; July 1, 2016.

Koch, Lehman

(SENATE SPONSOR — HOLDMAN)

January 13, 2015, read first time and referred to Committee on Government and Regulatory Reform.

February 5, 2015, amended, reported — Do Pass.

February 10, 2015, read second time, amended, ordered engrossed.

February 11, 2015, engrossed.

February 12, 2015, read third time, passed. Yeas 94, nays 0.

SENATE ACTION

February 24, 2015, read first time and referred to Committee on Local Government.

March 26, 2015, amended, reported favorably — Do Pass.

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March 27, 2015

First Regular Session of the 119th General Assembly (2015)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2014 Regular Session and 2014 Second Regular Technical Session of the General Assembly.

ENGROSSED HOUSE BILL No. 1264

A BILL FOR AN ACT to amend the Indiana Code concerning state and local administration.

Be it enacted by the General Assembly of the State of Indiana:

- 1 SECTION 1. IC 5-11-1-27, AS ADDED BY P.L.117-2011,
2 SECTION 2, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
3 JULY 1, 2016]: Sec. 27. (a) As used in this section, "~~local government~~"
4 ~~means county, city, town, or township.~~ "**legislative body**" has the
5 meaning set forth in IC 36-1-2-9.
6 (b) As used in this section, "**material**" means a significant or
7 consequential amount, as determined by the state examiner and
8 approved by the audit committee.
9 (c) As used in this section, "**personnel**" means an officer or
10 employee of a political subdivision whose official duties include
11 receiving, processing, depositing, disbursing, or otherwise having
12 access to funds that belong to the federal government, state
13 government, a political subdivision, or another governmental
14 entity.
15 (d) As used in this section, "**political subdivision**" has the

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1 **meaning set forth in IC 5-11-10.5-1.**

2 ~~(b)~~ **(e)** In the compliance guidelines authorized under section 24 of
 3 this chapter, the state board of accounts shall define **and the audit**
 4 **committee shall approve not later than November 1, 2015**, the
 5 acceptable minimum level of

6 ~~(1)~~ **(1)** internal control standards and

7 ~~(2)~~ **(2)** internal control procedures

8 for internal control systems of ~~local governments~~, **political**
 9 **subdivisions, including the following:**

10 **(1) Control environment.**

11 **(2) Risk assessment.**

12 **(3) Control activities.**

13 **(4) Information and communication.**

14 **(5) Monitoring.**

15 The internal control standards and procedures shall be developed to
 16 promote government accountability and transparency.

17 **(f) Not later than November 1, 2015, the state board of accounts**
 18 **shall develop or designate approved personnel training materials**
 19 **as approved by the audit committee, to implement this section.**

20 **(g) The legislative body of a political subdivision shall ensure**
 21 **that:**

22 **(1) the internal control standards and procedures developed**
 23 **under subsection (e) are adopted by the political subdivision;**
 24 **and**

25 **(2) personnel receive training concerning the internal control**
 26 **standards and procedures adopted by the political**
 27 **subdivision.**

28 **(h) The fiscal officer of a political subdivision shall certify in**
 29 **writing that:**

30 **(1) the minimum internal control standards and procedures**
 31 **defined under subsection (e) have been adopted by the**
 32 **political subdivision; and**

33 **(2) personnel, who are not otherwise on leave status, have**
 34 **received training as required by subsection (g)(2).**

35 **The certification shall be filed with the state board of accounts at**
 36 **the same time as the annual financial report required by section**
 37 **4(a) of this chapter is filed. The certification shall be filed**
 38 **electronically in the manner prescribed under IC 5-14-3.8-7.**

39 **(i) If the state board of accounts finds during an audit of a**
 40 **political subdivision that:**

41 **(1) the political subdivision has not adopted the internal**
 42 **control standards and procedures required under subsection**



(g)(1); or

(2) personnel of the political subdivision have not received the training required under subsection (g)(2);

the state board of accounts shall issue a comment in its examination report for the political subdivision. If, during a subsequent audit, the state board of accounts finds the violations described in subdivision (1) or (2) have not been corrected, the state board of accounts shall forward the information to the department of local government finance.

(e) (j) All erroneous or irregular material variances, losses, shortages, or thefts of local government political subdivision funds or property shall be reported immediately to the state board of accounts. For all material variances, losses, shortages, or thefts, the state board of accounts shall:

(1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;

(2) determine the internal control weakness that contributed to or caused the condition; and

(3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:

(A) the method of correcting the condition; and

(B) the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

(d) (k) The legislative body or the appropriate official overseeing the internal control system shall immediately implement the policies and procedures recommended by the state board of accounts under subsection (e)(3)(B). (j)(3)(B).

(l) A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

(1) information obtained as a result of a police report;

(2) an internal audit finding; or

(3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision.

(m) If the attorney general institutes civil proceedings related to this section or under IC 5-11-5-1, the attorney general shall seek, in addition to the recovery of any funds misappropriated, diverted,



or unaccounted for, restitution of:

- (1) costs incurred by the state board of accounts; and
- (2) all costs and reasonable attorney's fees incurred by the attorney general;

in connection with the civil proceedings.

SECTION 2. IC 5-11-1-28 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2015]: Sec. 28. (a) The bureau of motor vehicles (IC 9-14-1-1), office of the secretary of family and social services (IC 12-8-1.5-1), and department of state revenue (IC 6-8.1-2-1) shall each annually:

(1) have performed by an internal auditor:

- (A) an internal audit; and
- (B) a review of internal control systems;

of the agency; and

(2) have the internal auditor report the results of the internal audit and review to an examiner designated by the state examiner to receive the results.

(b) The examiner designated under subsection (a) shall, not later than September 1 of each year:

(1) compile a final report of the results of the internal audits and reviews performed and reported under subsection (a); and

(2) submit a copy of the final report to the following:

- (A) The governor.
- (B) The auditor of state.
- (C) The chairperson of the audit committee, in an electronic format under IC 5-14-6.
- (D) The director of the office of management and budget.
- (E) The legislative council, in an electronic format under IC 5-14-6.

SECTION 3. IC 6-1.1-17-16.2, AS ADDED BY P.L.172-2011, SECTION 33, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2016]: Sec. 16.2. (a) The department of local government finance may not approve the budget of a taxing unit or a supplemental appropriation for a taxing unit until the taxing unit files an annual report under IC 5-11-1-4 or IC 5-11-13 for the preceding calendar year, unless the taxing unit did not exist as of March 1 of the calendar year preceding the ensuing calendar year by two (2) years. This section applies to a taxing unit that is the successor to another taxing unit or the result of a consolidation or merger of more than one (1) taxing unit, if an annual report under IC 5-11-1-4 or IC 5-11-13 has not been filed for each predecessor taxing unit.



- 1 (b) The department of local government finance may not
2 approve the budget of a taxing unit or a supplemental
3 appropriation for a taxing unit if the department of local
4 government finance receives information from the state board of
5 accounts that:
- 6 (1) the taxing unit has not adopted the internal control
 - 7 standards and procedures required by IC 5-11-1-27(g)(1); or
 - 8 (2) personnel of the political subdivision have not received the
 - 9 training required by IC 5-11-1-27(g)(2).



COMMITTEE REPORT

Mr. Speaker: Your Committee on Government and Regulatory Reform, to which was referred House Bill 1264, has had the same under consideration and begs leave to report the same back to the House with the recommendation that said bill be amended as follows:

Page 1, line 3, strike ""local government"".

Page 1, line 4, strike "means".

Page 1, line 4, delete "a".

Page 1, line 4, strike "county, city, town, or township." and insert **""legislative body" has the meaning set forth in IC 36-1-2-9.**

(b) As used in this section, "political subdivision" has the meaning set forth in IC 5-11-10.5-1.

(c) As used in this section, "material" means a significant or consequential amount, as determined by the state examiner and approved by the audit committee."

Page 1, line 5, strike "(b)" and insert **"(d)"**.

Page 1, line 10, strike "local governments," and insert **"political subdivisions,"**.

Page 2, between lines 3 and 4, begin a new paragraph and insert:

"(e) The state board of accounts shall develop or designate approved personnel training materials to implement this section."

Page 2, line 4, delete "(c)" and insert **"(f)"**.

Page 2, line 4, delete "local government" and insert **"political subdivision"**.

Page 2, line 9, delete "(d) The attorney who represents" and insert **"(g) The legislative body of"**.

Page 2, line 10, delete "state" and insert **"department of local government finance"**.

Page 2, line 11, delete "board of accounts".

Page 2, line 12, delete "(b)" and insert **"(d)"**.

Page 2, line 12, delete "local government." and insert **"political subdivision."**

Page 2, line 13, delete "(e)" and insert **"(h)"**.

Page 2, line 14, strike "local government" and insert **"political subdivision"**.

Page 2, line 15, delete "The" and insert **"For all material variances, losses, shortages, or thefts, the"**.

Page 2, line 28, delete "(f)" and insert **"(i)"**.

Page 2, line 31, delete "(e)(3)(B)." and insert **"(h)(3)(B)."**

Page 2, line 32, delete "(g)" and insert **"(j)"**.

Page 2, line 40, delete "inspector general" and insert **"state board"**



of accounts".

Page 2, line 41, delete "local government." and insert **"political subdivision."**

Page 2, delete line 42, begin a new paragraph and insert:

"(k) If the attorney general institutes civil proceedings related to this section or under IC 5-11-5-1, the attorney general shall seek, in addition to the recovery of any funds misappropriated, diverted, or unaccounted for, restitution of:

- (1) costs incurred by the state board of accounts; and**
- (2) all costs and reasonable attorney's fees incurred by the attorney general;**

in connection with the civil proceedings."

Page 3, delete lines 1 through 11, begin a new paragraph and insert:

"SECTION 2. IC 5-11-1-28 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2015]: Sec. 28. (a) The bureau of motor vehicles (IC 9-14-1-1), office of the secretary of family and social services (IC 12-8-1.5-1), and department of state revenue (IC 6-8.1-2-1) shall each annually:

(1) have performed by an internal auditor:

- (A) an internal audit; and**
 - (B) a review of internal control systems;**
- of the agency; and**

(2) have the internal auditor report the results of the internal audit and review to an examiner designated by the state examiner to receive the results.

(b) The examiner designated under subsection (a) shall, not later than September 1 of each year:

(1) compile a final report of the results of the internal audits and reviews performed and reported under subsection (a); and

(2) present the final report to a committee composed of the following:

- (A) The governor or the governor's designee.**
- (B) The auditor of state or the auditor's designee.**
- (C) The chairperson of the audit committee, in an electronic format under IC 5-14-6.**
- (D) The director of the office of management and budget or the director's designee.**

(c) The committee described in subsection (b)(2) shall, not later than October 1 of each year, submit a copy of the final report to the audit committee in an electronic format under IC 5-14-6."

Page 3, line 24, after "(b)" insert **"This subsection applies after**



December 31, 2016."

Page 3, line 29, delete "IC 5-11-1-27(c);" and insert **"IC 5-11-1-27(f);"**.

Page 3, line 32, delete "IC 5-11-1-27(d)" and insert **"IC 5-11-1-27(g)"**.

Renumber all SECTIONS consecutively.

and when so amended that said bill do pass.

(Reference is to HB 1264 as introduced.)

LUCAS

Committee Vote: yeas 11, nays 0.

HOUSE MOTION

Mr. Speaker: I move that House Bill 1264 be amended to read as follows:

Page 2, delete lines 12 through 21, begin a new paragraph and insert:

"(f) The legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures defined under subsection (d) are adopted by the political subdivision;**
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision; and**
- (3) the internal control standards and procedures adopted by the political subdivision are being followed.**

(g) The fiscal officer of a political subdivision shall certify in writing that:

- (1) the minimum internal control standards and procedures defined under subsection (d) have been adopted by the political subdivision; and**
- (2) personnel have received training as required by subsection (f)(2).**

The certification shall be filed with the state board of accounts at the same time as the annual financial report required by section 4(a) of this chapter is filed. The certification shall be filed electronically in the manner prescribed under IC 5-14-3.8-7.

(h) If the state board of accounts finds during an audit of a political subdivision that:

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(1) the political subdivision has not adopted the internal control standards and procedures required under subsection (f)(1); or

(2) personnel of the political subdivision have not received the training required under subsection (f)(2);

the state board of accounts shall issue a comment in its examination report for the political subdivision. If, during a subsequent audit, the state board of accounts finds the violations described in subdivision (1) or (2) have not been corrected, the state board of accounts shall forward the information to the department of local government finance."

Page 2, line 22, delete "(h)" and insert "**(i)**".

Page 2, line 38, delete "(i)" and insert "**(j)**".

Page 2, line 41, delete "(h)(3)(B)." and insert "**(i)(3)(B).**".

Page 2, line 42, delete "(j)" and insert "**(k)**".

Page 3, line 10, delete "(k)" and insert "**(l)**".

Page 4, delete lines 16 through 25, begin a new paragraph and insert:

"(b) The department of local government finance may not approve the budget of a taxing unit or a supplemental appropriation for a taxing unit if the department of local government finance receives information from the state board of accounts that:

(1) the taxing unit has not adopted the internal control standards and procedures required by IC 5-11-1-27(f)(1); and

(2) personnel of the political subdivision have not received the training required by IC 5-11-1-27(f)(2)."

(Reference is to HB 1264 as printed February 6, 2015.)

KOCH



COMMITTEE REPORT

Madam President: The Senate Committee on Local Government, to which was referred House Bill No. 1264, has had the same under consideration and begs leave to report the same back to the Senate with the recommendation that said bill be AMENDED as follows:

Page 1, line 3, delete "2015]" and insert "2016]".

Page 1, between lines 5 and 6, begin a new paragraph and insert:

"(b) As used in this section, "material" means a significant or consequential amount, as determined by the state examiner and approved by the audit committee.

(c) As used in this section, "personnel" means an officer or employee of a political subdivision whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity."

Page 1, line 6, delete "(b)" and insert **"(d)"**.

Page 1, delete lines 8 through 10.

Page 1, line 11, delete "(d)" and insert **"(e)"**.

Page 1, line 12, after "define" insert **"and the audit committee shall approve not later than November 1, 2015,"**.

Page 2, line 10, delete "(e) The" and insert **"(f) Not later than November 1, 2015, the"**.

Page 2, line 11, after "materials" insert **"as approved by the audit committee,"**.

Page 2, line 12, delete "(f)" and insert **"(g)"**.

Page 2, line 14, delete "defined" and insert **"developed"**.

Page 2, line 15, delete "(d)" and insert **"(e)"**.

Page 2, line 15, after ";" insert **"and"**.

Page 2, line 18, delete "; and" and insert **","**.

Page 2, delete lines 19 through 20.

Page 2, line 21, delete "(g)" and insert **"(h)"**.

Page 2, line 24, delete "(d)" and insert **"(e)"**.

Page 2, line 26, after "personnel" insert **", who are not otherwise on leave status,"**.

Page 2, line 27, delete "(f)(2)." and insert **"(g)(2)."**

Page 2, line 32, delete "(h)" and insert **"(i)"**.

Page 2, line 36, delete "(f)(1);" and insert **"(g)(1);"**

Page 2, line 38, delete "(f)(2);" and insert **"(g)(2);"**

Page 3, line 3, delete "(i)" and insert **"(j)"**.

Page 3, line 3, after "irregular" insert **"material"**.



Page 3, line 19, delete "(j)" and insert "**(k)**".

Page 3, line 22, delete "(i)(3)(B)." and insert "**(j)(3)(B)**".

Page 3, line 23, delete "(k)" and insert "**(l)**".

Page 3, line 33, delete "(l)" and insert "**(m)**".

Page 4, line 16, delete "present" and insert "**submit a copy of**".

Page 4, line 16, delete "a committee composed of".

Page 4, line 18, delete "or the governor's designee." and insert ".".

Page 4, line 19, delete "or the auditor's designee." and insert ".".

Page 4, line 22, after "budget" insert ".

(E) The legislative council, in an electronic format under IC 5-14-6."

Page 4, delete lines 23 through 26.

Page 4, line 29, delete "2015]" and insert "2016]".

Page 5, line 3, delete "IC 5-11-1-27(f)(1); and" and insert "**IC 5-11-1-27(g)(1); or**".

Page 5, line 5, delete "IC 5-11-1-27(f)(2)." and insert "**IC 5-11-1-27(g)(2)**".

and when so amended that said bill do pass.

(Reference is to HB 1264 as reprinted February 11, 2015.)

HEAD, Chairperson

Committee Vote: Yeas 6, Nays 0.

